Financial Consumer Agency of Canada
Agence de la consommation en matière financière du Canada

CREDIT CARD BALANCE INSURANCE

Financial Consumer Agency of Canada
IT PAYS TO KNOW.

Canada

About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

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WHAT IS CREDIT CARD BALANCE INSURANCE?

Credit card balance insurance is a form of insurance for your credit card that can protect you against unexpected events such as a serious injury, disability, accidental death or job loss.

Federally regulated financial institutions, such as banks or trust companies, obtain your consent before charging you for credit card balance insurance. They cannot charge you for credit card balance insurance if you did not agree to sign up for it.

The financial institution must also provide you with certain information both before and after you provide your consent.

Credit card balance insurance is optional. You are not required to buy it to obtain a credit card.

Learn more about negative option billing and your rights at **www.fcac.gc.ca**

HOW CREDIT CARD BALANCE INSURANCE PROTECTS YOU

Credit card balance insurance is usually a combination of several insurance products, including critical illness, disability, job loss and life insurance.

- **If you become injured, disabled or lose your job,** the insurance company will make the minimum payments or pay a certain percentage monthly—usually 3% to 5%— of the balance on your credit card for you.
- **If you die or have a critical illness,** the insurance company will pay off the credit card balance owing at the time of your illness or death, up to a maximum amount.

The credit card issuer is the beneficiary of any credit card balance life insurance policy. The death benefit is paid to the credit card issuer to pay off your credit card debt.

You would need to buy a separate life insurance policy if you want your family or heir(s) to receive a death benefit in the event of your death.

The benefits apply to the specific credit card for which you agree to purchase the insurance.

If you have other credit cards, those would not be covered unless you purchase credit card balance insurance for each of them separately.

TERMS AND CONDITIONS

In order to qualify, your account must be in good standing. This means that you must:

- not be over your credit limit
- not have any past due payments owing
- not have any recent dishonoured payments to your account.

In addition, the following terms and conditions usually apply to:

Disability or job loss claims

- In some cases, the insurance company may only make your payments for a limited period of time or until a maximum benefit is reached. Policies vary, but the maximum benefit is usually between $5,000 and $25,000.
- At the time of your injury, disability or job loss, you must have been permanently employed for a minimum number of hours per week (usually at least 20).
- If you are a self-employed or seasonal employee, review the policy carefully to find out whether you are eligible for coverage.
- In some cases there may be a waiting period. For example:
  - You may need to have the coverage for a period of time—usually 30 to 90 days—before you can submit a disability or job loss claim.
  - If the insurer approves your job loss or disability claim, it may begin making payments on your credit card balance only after you have been disabled or unemployed for a certain amount of time—usually 30 days.

    You are responsible for continuing to make at least your monthly minimum payments until the insurer decides if it will approve your claim.
- You may continue to be charged monthly premiums while receiving benefits.

  For example, if you are receiving job loss benefits, you may continue to be charged the monthly premium for other benefits to which you may be still be entitled, such as life and critical illness insurance.
- Interest will continue to be charged on your balance.

Critical illness or death claims

- The insurance company will pay off your credit card debt up to a maximum amount (usually between $5,000 and $25,000).
- Coverage is usually limited to certain critical illnesses such as cancer, heart attack, and stroke.
- Many credit card balance insurance policies do not require detailed information about your medical history to qualify.

  However, if you have a pre-existing condition, you must have been free of the illness for a period of time—usually 6 to 12 months—as defined in the terms and conditions, before you are eligible for benefits.

The injuries or illnesses covered by the insurance will be included in your credit card balance insurance contract or certificate. **You will not be covered for illnesses or injuries that are not included in the list.**

Before you sign anything, read the terms and conditions carefully and make sure you fully understand what is covered by the policy.

THE COST OF CREDIT CARD BALANCE INSURANCE

Like other forms of insurance, you must pay a monthly fee, called a "premium." This premium varies from one credit card issuer to another.

The premium is charged directly to your credit card every month and is subject to applicable provincial or territorial taxes. If you don't pay your credit card balance in full before the statement date, you will also be charged interest on the premium.

The premium will change each month depending on the balance you owe: the lower the balance, the lower the premium. If you carry a large balance from month to month on your credit card, the credit card balance insurance premiums can add up quickly.

The example provided below shows the premium for different balances owing, assuming the monthly outstanding balance remains the same for the full year.

Example: credit card balance insurance costs

This example is based on a premium of $0.95 per $100 of balance owing. However, credit card balance insurance premiums vary by credit card issuer. Details in this example are for illustration purposes only.

Balance owing (on the statement date) ($)	Monthly premium (balance owing÷$100 x 0.95) ($)	Approximate yearly cost (monthly premium x12 months) ($)
100	0.95	11.40
500	4.75	57.00
1,000	9.50	114.00
2,500	23.75	285.00
5,000	47.50	570.00
10,000	95.00	1,140.00

If you are close to the limit on your credit card, the monthly charge for your credit card balance insurance may put you over your credit limit. If this happens, your credit card issuer may charge you an "over-the-limit" fee. Check with your credit card issuer to find out whether it charges this fee.

A comparison of credit card balance insurance fees can be found on FCAC's website at **www.fcac.gc.ca**. Visit the Publications section and select Payment Options.

HOW PREMIUMS ARE CALCULATED

Premiums for credit card balance insurance are usually calculated using one of following methods:

Balance as of statement date

- Your premium is calculated based on the amount owing at the end of the billing period.
- Paying the balance in full by the due date does not result in no premium being charged.

  The statement must have a $0 balance (or a credit) **when you receive it** for no premium to be charged.

Average daily balance

- Your premium is calculated by adding the balance at the end of each day and dividing that total by the number of days in the billing period (usually 29 to 31 days).

  This means that even if you pay off your credit card in full every month, you may still be charged a premium if your card had a balance at any time during the previous billing period.
- You can reduce your monthly premium by making your payments earlier in the billing period.

EXAMPLE: HOW CREDIT CARD BALANCE INSURANCE WORKS

The following examples are based on an outstanding credit card balance of $1,000.

Details in these examples are for illustration purposes only. Actual costs, benefits and other terms will depend on the insurance policy offered for the specific credit card.

Sample insurance terms	
Coverage	**Costs**
• If there is an eligible claim for **job loss or disability**, the insurer will pay 5% of the outstanding credit card balance in the event of job loss or disability for up to 12 months • If there is an eligible claim **for life or critical illness,** the insurer will pay the outstanding credit card balance at the time of claim, up to a maximum of $25,000.	• $0.95 for every $100 of balance as of statement date - On a balance of $1,000, your premium would be $9.50 per month or $114.00 per year (plus applicable taxes). - Interest would continue to accrue on your balance. • Credit card interest rate - 19% (approximately 1.583% per month). • Premium is waived while benefit is being paid.

Sample benefits in case of an eligible claim			
Job loss or disability claim		**Life or critical illness claim**	
Starting credit card balance	$1,000.00	Starting credit card balance	$1,000.00
Interest of 19%	$15.83	***Insurer pays entire outstanding credit card balance***	***$1,000.00***
Insurer pays 5% of outstanding credit card balance	***$50.00***	Ending credit card balance	$0.00
Balance at the end of the first month (after the claim)	$965.83		
Balance at the end of 12 months when the benefit payments end (if you make no additional purchases)	$658.91		

DO YOU NEED CREDIT CARD BALANCE INSURANCE?

If you are considering signing up for credit card balance insurance, compare the coverage offered by other options, such as a term life or disability insurance policy, to see which meets your needs and offers the best value.

If you have medical issues, a life insurance company may place you in a higher risk category. This could make individual life insurance policies too expensive or unavailable to you. In this case, credit card balance insurance may meet your needs. However, read the terms and conditions carefully to ensure you understand whether these medical issues have an impact on your coverage.

You may not need credit card balance insurance if:

- you are covered by another insurance plan that will help pay off your debts in case of death or a disability (for example, through your employer)
- you think you will have enough income from other sources (for example, from rental property, accumulated savings, or investments) to make your minimum credit card payments if you become ill or lose your job.

HOW TO GET CREDIT CARD BALANCE INSURANCE

You can get credit card balance insurance through your credit card issuer when you sign up for a new credit card. You can also ask your credit card issuer to start the insurance coverage on your existing card at any time.

If your credit card is issued by a federally regulated financial institution, such as a bank or trust company, the financial institution must provide you with the following information:

- the cost and charges associated with credit card balance insurance
- how to cancel credit card balance insurance.

Your credit card balance insurance contract or certificate will list the terms and conditions of your insurance coverage, including the benefits and exclusions.

When coverage starts, there is usually a 30-day "risk-free" trial period, during which time you can cancel the policy and obtain a refund of any premiums you have paid. After 30 days, monthly billing charges start—unless you cancel your policy before the end of the trial period.

There is usually a maximum age—often between 65 and 70—to qualify for credit card balance insurance.

HOW TO CANCEL CREDIT CARD BALANCE INSURANCE

You may cancel your credit card balance insurance at any time, usually by contacting the insurance company, which is often a different company from the credit card issuer.

If your credit card was issued by a federally regulated financial institution, such as a bank or trust company, the financial institution can only charge you for the amount of time you were actually signed up for the insurance.

Contact FCAC at **www.fcac.gc.ca** to learn more about your rights when cancelling an optional financial product or service such as credit card balance insurance.

Check your policy for the specific procedures you will need to follow to cancel your policy.

HOW TO MAKE A CLAIM

If you die, become critically ill, lose your job or have an accident, you (or someone acting on your behalf) must notify the insurance company—which may be a different company from the credit card issuer—right away.

The insurance company will then ask you or your representative to complete a claim form, usually within a certain period of time following the death, involuntary job loss or health diagnosis. The timeframe varies by insurer and will be outlined in your policy.

Before filing a claim, you or your representative should read the insurance contract or certificate carefully to make sure that all the necessary information to support the claim is available. In most cases, proof of your death, injury, disability or involuntary unemployment must be provided in the form of a death certificate, or a letter from your doctor or former employer.

Although a medical examination is not necessary when you apply for credit card balance insurance, an insurance company may request that you undergo a medical exam by a doctor of its choice before it pays out disability or critical illness benefits.

Check your policy for the specific procedures you will need to follow to file a claim.

BEFORE SIGNING UP FOR CREDIT CARD BALANCE INSURANCE

Make sure you understand the cost, the age required to qualify for benefits and the maximum amount that the insurance company will pay.

Request a copy of the sample insurance contract or certificate so that you can review the terms and conditions before signing up.

Review the insurance certificate or contract carefully once you receive it and check for the following key points:

- how much the insurer would pay in each situation that is covered (for example, job loss, critical illness)
- details of the benefits, including any conditions or limitations that apply
- when and how benefits are paid
- how the premium is calculated
- whether or not the policy covers your spouse or the supplementary cardholder
- the maximum period of time for which benefits are paid
- how to submit a claim and the expected turnaround times
- how long is the waiting period before you are eligible to receive benefits
- how long is the trial period
- how to cancel at no cost during the trial period.

IF YOU HAVE A COMPLAINT

If you have a complaint, bring it up with your credit card issuer or insurance company as soon as possible.

FCAC has a **complaint-handling process search tool** on its website (**www.fcac.gc.ca**) that can help you find out about the complaint-handling process for your insurer. It is important that you follow your credit card issuer or insurance company's internal complaint-handling process before taking further steps.

If your problem has still not been resolved, contact your provincial insurance regulator. Provincial insurance regulators enforce consumer protection laws and also oversee the licensing and conduct of insurance agents and brokers in their province.

A list of **federal, provincial and territorial insurance regulators** is available on FCAC's website at **www.fcac.gc.ca**. Visit the About FCAC section on FCAC's website and select Other Regulators from the available options.

If your complaint has not been resolved by the insurance company or Regulator, you can contact one of the following organizations that can offer a third-party review of your complaint:

- **OmbudService for Life and Health Insurance (OLHI)**
  www.olhi.ca
  1-888-295-8112 (English)
  1-866-582-2088 (French)

- **Quebec: L'Autorité des marchés financiers (AMF)**
  www.lautorite.qc.ca
  Québec: 418-525-0337
  Montréal: 514-395-0337
  Other regions: 1-877-525-0337

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